AGC Networks Ltd
April 5, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long term Bank Facilities	124.37 (reduced from Rs.151.55 crore)	**CARE BB+ (Double B Plus; Outlook:Stable)**	**Revised from CARE BB;ISSUER NOT COOPERATING (Double B; ISSUER NOT COOPERATING)**
Short term Bank Facilities	38.70 (enhanced from Rs.38.00 crore)	**CARE A4 (A Four)**	**Revised from CARE A4;ISSUER NOT COOPERATING (A Four; ISSUER NOT COOPERATING)**
Total	**163.07 (Rs. One hundred Sixty Three crore and Seven lakhs only)**		

Rating Rationale

The rating revision considers the improved operational performance of AGC as reflected by the net profit at standalone as well as consolidated level in FY17 (refers to the period April 1, 2016 to March 31, 2017) and 9MFY18 coupled with marginal improvement in the capital structure and debt coverage metrics of AGC.

The ratings continue to be constrained by the relatively high financial leverage, reduced albiet continued corporate guarantee and slower than expected improvement in the operation profile. Further, the ratings factor in the foreign exchange risk faced by the company and competitive nature of the IT/ITes industry. Moreover the portion of foreign exchange risk is covered through natural hedge from overseas subsidiaries.

The ratings continue to be supported by the experience promoters (viz., Essar group) and management, sound technical know-how and domain expertise of AGC, strong and diverse client based across various verticals and diversified capabilities in Information and Communication Technology (ICT) solutions.

AGC's ability to further improve its financial performance in the scenario of stiff competition in the industry and sustained performance on recent initiatives taken by the management are the key rating sensitivities. Timely realisation of monies from sale of property in FY19 and retirement of debt availed against it is also a rating sensitivity.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Key Rating Weaknesses

Relatively Stretched capital structure and debt coverage indicators
On a consolidated basis, the overall gearing continue to be on higher side at 2.99x in FY17 as against 3.29x in FY16, the company is dependent on debt for working capital and new initiatives. Although there has been an improvement in the debt coverage parameters, they continue to remain moderate; Total Debt to Gross Cash Accruals (TDGCA) stood at 10.18x as on 31st March 2017 as against negative 6.77x in 31st March 2016, also the interest coverage has improved to 1.39x as against 0.3x of last year and total debt to PBILDT stood at 5.49x as compare to 21.86x over the same period

Collection period still relatively high

On a consolidated basis for FY17, AGC's collection period is at same level of ~100 days mostly affected by Indian business. Stretched receivable cycle over the years has led to moderation in liquidity position and higher dependence on working capital borrowings. Total outstanding receivables as on 31st March 2017 were Rs.206 crore as against Rs. 216.28 crore as on 31st March 2016.

Foreign exchange risk
On a standalone level AGC is a net importer with major portion of third party equipment requirement being imported by the company. However, on a consolidated level wherein the earnings are in dollars from its US and Singapore subsidiaries which contribute 50% of the total revenues, the company has a protection through natural hedge from its international operations.

Corporate guarantee to subsidiary has reduced but remains at moderate level

In 9MFY18 total corporate guarantee has reduced to USD 6 million i.e. Rs. 39 crore with maximum utilisation of ~USD 5 million, remains at moderate level as considered to the total networth. Moreover, the corporate guarantee were stands at Rs.116.74 crore and Rs.119.40 crore (i.e. USD 18 Millions) in FY17 and FY16 towards the financial obligation (working capital borrowings) of M/s AGC Networks Pte. Limited, Singapore. The corporate guarantee as a percentage of net-worth is reduced to 46% in 9MFY18 as compared to 288% in FY17 and 219% in FY16.

Competitive nature of the business

The managed IT services market is highly competitive with competition from Tier I domestic IT service providers, global IT service providers, large telecommunication companies, telecommunication service providers as well as small and midsize IT services companies. Moreover, the managed IT solutions market has seen significant capacity expansion over the past few years to tap into the potential of the growing domestic IT solutions market. The presence of large industry players, increasing number of smaller firms, robust capacity expansion for the industry together with the rapidly changing business dynamics of the IT industry have resulted in increased competition within the IT solutions market leading to subdued revenue growth and pressure on profit margins.

Key Rating Strengths

Experienced Promoters

AGC is a part of the Essar Global Fund Limited ("EGFL") is a global investor, controlling a number of large assets diversified across the core sectors of Metals & Mining, Energy, Infrastructure (comprising Ports and EPC businesses) and Services (Shipping and IT businesses). EGFL invests long-term capital into the portfolio companies and holds substantial stake in all its investments. EGFL invests with a sense of active ownership, which involves direct engagement with the management of the respective businesses. The portfolio companies have aggregate revenues of about USD 15 billion (estimated for the financial year ending 31 March 2018) and employ over 8,000 people. By virtue of being in the Essar Group, AGC has qualified and professional team of directors and management with most of them having significant experience in the IT/ITes space.

Sound technical know-how and domain expertise

AGC has been operating in telecommunication & networking related business for nearly three decades. Over the period, AGC has developed sound technical know-how and domain expertise, helping it to diversify into related businesses with relative ease as well as to adapt to any technological developments in its existing domain of operations. This expertise has enabled AGC to offer customised solutions/services to its customers, thereby giving it a competitive advantage.

Induction of experienced and expert management personnel

The company has changed the management team and business team, to revamp the activity. The company has appointed Sanjeev Verma as a Managing Director and CEO holding 24 years of rich global experience in IT space and is associated with AGC for last 8 years. Similarly the company has appointed Mr. Deepak Kumar Bansal as CFO holding 20 years of experience in financial, control and corporate governance. He is associated with Essar group from last 5 years. Also, the company has appointed Jayantha Prabhu as Business Head for India, he is having commendable 25 years of experience in Business development field and has access to technology decision making community in India. Each country is led by seasoned and experienced management team.

Strong and well diversified client base

AGC has a strong client base which includes some of the majors such as the TCS, SBI, Xiaomi Technology India Pvt.Ltd., Deloitte, HCL, Accenture, Vodafone, Hewlett Packard, Citibank, WNS Global Services, Wells Fargo India Solutions, Ericsson, Volkswagen, Skoda, Deutsche Bank and various government departments/public sector undertakings. AGC's clientele is spread across a broad spectrum of verticals such as banking, financial services and insurance, government, PSUs and defence, healthcare, travel and hospitality, IT/ITes, manufacturing, energy and utilities, etc. In addition, customer concentration risk has been historically low, with the top 10 customers contributing around 30% to the total sales. The well diversified client base insulates the company's revenue stream from any industry specific risks of business cycles.

Analytical approach: Consolidated

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Services companies]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]

About The Company

AGC, incorporated in 1986 by Tata Telecom Pvt. Ltd. to manufacture telecommunication equipment, was acquired by the USA based Avaya Inc in 2004. In August 2010, Essar group acquired 79.13% stake in the company which was transferred to a group company Aegis Ltd. Aegis transferred the investment in AGC to another group company (viz., Essar Telecom Ltd) effective from March 28, 2014.

Over the years, AGC evolved into ICT solutions provider and integrator with a differentiated vertical approach in business communication systems, applications and services mainly within India. AGC Networks (AGC) is a Global Solution Provider representing the world's best brands in Unified Communications, Data Center and Edge IT, Cyber Security (CYBER-i) and Digital Transformation & Applications to evolve the customer's digital landscape.

AGC has been undergoing major expansion in its international operations. The company has consistently increased its global footprint through foray into multiple geographies across Middle East, Africa, North America, Australia, New Zealand, Singapore, Philippines and UK serving over 3,000 customers.

In collaboration with global technology leaders like Avaya, McAfee, Palo Alto, Cisco, HPE, Trend Micro, Juniper, Nutanix, NICE, Verint, Polycom, Genesys and Mitel among others, AGC delivers Return on Technology Investment through customized solutions and services accelerating customers' business.

Brief Financials (Rs. crore)-Consolidated	FY16 (A)	FY17 (A)
Total operating income	883.71	780.64
PBILDT	8.08	34.57
PAT	-34.59	12.09
Overall gearing (times)	3.29	3
Interest coverage (times)	0.3	1.39

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	103.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	May-19	21.37	CARE BB+ ; Stable
Non-fund-based - ST-BG/LC	-	-	-	38.70	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	103.00	CARE BB+; Stable	-	1)CARE BB; ISSUER NOT COOPERATING* (02-Feb-18)	1)CARE BB (07-Jul-16)	1)CARE BBB- (13-Aug-15)
2.	Non-fund-based - ST-BG/LC	ST	38.70	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (02-Feb-18)	1)CARE A4 (07-Jul-16)	1)CARE A3 (13-Aug-15)
3.	Fund-based - LT-Term Loan	LT	21.37	CARE BB+; Stable	-	1)CARE BB; ISSUER NOT COOPERATING* (02-Feb-18)	1)CARE BB (07-Jul-16)	1)CARE BBB- (13-Aug-15)

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CIN - L67190MH1993PLC071691